

Examiner's View: Evolution of Bank Supervision

Safeguarding Trust in Banking Since 1863

The Office of the Comptroller of the Currency (OCC) was created to charter and supervise national banks, which would serve as the instruments of a uniform, secure national currency and help stabilize and support the national economy.

From the creation of the federal banking system in 1863 to today, sweeping changes in laws, regulations, and banking practices have resulted in the OCC's dynamic approach to bank supervision that continually evolves to safeguard trust in banking. Throughout the OCC's history, a focus on developing and maintaining trust between financial providers, their

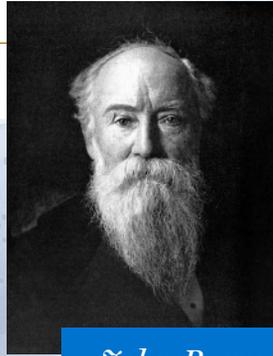
constituents, and their regulators has emerged as a hallmark of bank supervision.

Technological changes have also had an impact on bank supervision. From writing in leather-bound ledgers and counting coins in the early days to the complex, integrated supervisory oversight of technology partnerships and operations today, OCC examiners have kept a steady focus on ensuring that their supervised institutions operate in a safe and sound manner, provide fair access to financial services, treat customers fairly, and comply with applicable laws and regulations.



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Examiner SPOTLIGHT



John Burroughs

JOHN BURROUGHS became famous for his writing about nature. A nascent writer in 1864, Burroughs took a job as a clerk in the U.S. Department of the Treasury and later became a National Bank Examiner.

Throughout his career as an examiner, he continued to publish essays in popular magazines on birds, flowers, rural scenes, religion, philosophy, and literature.

One of his most notable works was published in 1867: *Notes on Walt Whitman, As Poet and Person*. This was the first biography published on Whitman, whom Burroughs had befriended.

In 1873, Burroughs moved to New York and continued his dual careers, both writing and examining banks.

Examiner SPOTLIGHT



Eugene T. Wilson

Merchant, journalist, and member of the Washington State Senate, **EUGENE T. WILSON** was appointed a National Bank Examiner in 1892.

During the Panic of 1893, he was assigned to supervise the national banks in Helena, Mont., where he uncovered evidence of fraud and mismanagement and took steps to force the banks to clean up their affairs. The bankers tried to bribe and discredit him, but Wilson prevailed.

According to a scholar who studied his OCC career, Wilson "brought to his job profound personal integrity, a well-developed concept of public responsibility, and a firm idea of fairness to all classes in connection with the banks."

1863-1913



Hugh McCulloch, Comptroller of the Currency from 1863-1865 (National Portrait Gallery, Smithsonian Institution, Frederic H. Messer Collection)

The first Comptroller of the Currency was a self-described expert at examining banks. Hugh McCulloch characterized his examinations of the Indiana bank he ran as "so searching and thorough ... that fraud or mismanagement could hardly have escaped detection."

As a banker, McCulloch initially opposed the National Currency Act of 1863, which established the OCC, because of its potential threat to state banks like his. But after the act passed, McCulloch agreed to support it and to help create a federal banking system from scratch. Bank examinations were a critical element of the system he envisioned. Congress

agreed and folded that requirement into the National Banking Act of 1864.

Initially, the extent of guidance to bank examiners on how to conduct a bank exam was minimal. Comptroller McCulloch's inside knowledge of banking—and bankers—was displayed best in his "Instructions and Suggestions of the Comptroller of the Currency Relative to the Organization and Management of National Banks," written in 1863.

National Bank Examiners in the field used to work more like independent contractors, paid directly by the banks

they examined at a rate of \$5 a day plus \$2 for every 25 miles traveled. Assessing banks directly for the cost of their supervision was intended to insulate examiners from the pressures of the federal budgeting and appropriations process.

This pay structure for examiners, combined with the number of banks supervised and their often far-flung locations, left many examiners overwhelmed; a single OCC examiner in 1887 had responsibility for 90 banks in seven states from Florida to Arkansas. Hiring an assistant would have helped with the workload, yet that would have

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It is of the highest importance to the banks themselves, as well as to the public, that the examiners should be expert, vigilant, and trustworthy, and that the examinations should be frequent and unexpected. While the examiners now employed are generally competent, and many of them are excellent, yet in some cases the territory to be covered is too large, and the pay too small, to secure the best men for the work.

been an out-of-pocket expense for the examiner. Rail travel was grueling; train schedules and connections were erratic. Examiners were sometimes tempted to rush through their work to avoid missing trains and being stranded—and unpaid—for days. The change from a fee-based system to regular salaries was adopted with the passage of the Federal Reserve Act in 1913.

By this time, national bank examinations were commonplace. Examiners were, however, very isolated. Many had never been to their district's main office or even talked to another examiner to compare information about their work or what they saw happening in the banks under their purview.

To help standardize exams and improve examiner performance, Comptroller Lawrence O. Murray categorized the OCC's 80 examiners by capability and consolidated the OCC's 25 districts into 12.

Each district would be headed by the best examiner available there, and that person would bring everyone together several times a year to discuss examination methods.



Hugh McCulloch's "Advice to Bankers of 1863" (reprint from *The Wall Street Journal*, March 17, 1933)

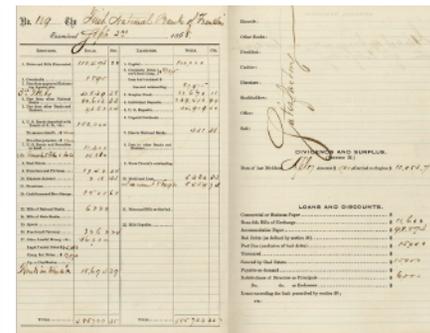
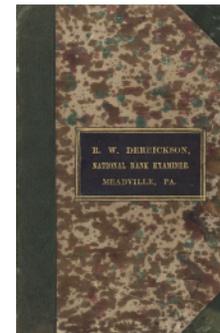
LETTER

ADDRESSED TO THE BANKERS' ASSOCIATION, AT SARATOGA SPRINGS, AUGUST, 1864

Excerpt from McCulloch's eight-page letter to the Bankers' Association at Saratoga Springs, NY, in 1864 describing examiner qualifications

To be a competent examiner of banks, especially of the large banks in our commercial cities, a man should have qualifications which very few men possess. He should have a thorough knowledge of practical banking. He should be a man of strong will and perfect integrity. He should be a hard worker, and so keen and thorough in his investigations as to render imposition difficult, if not impossible. He should be able, as some men are, to tell by the bearing of the officers of a bank, and even its very atmosphere, whether it is faithfully or unfaithfully managed, before he examines it.

Cover and several pages from an 1860s bank examination report



Excerpt from the OCC's 1886 annual report